

## 5-11-10, Bachus: We Must Be Cautious In Responding To Last Thursday's Market Events

May 11, 2010

WASHINGTON - Financial Services Committee Ranking Member Spencer Bachus made the following statement today during a Subcommittee hearing entitled, "The Stock Market Plunge: What Happened and What Is Next?"

"The American financial markets are the most modern in the world. They execute trades more efficiently and economically than ever before. They are the envy of the world, the fastest and most liquid in the world. However, high frequency computer driven trading across multiple platforms and forums does create the possibility of events similar to those we witnessed last week. All innovation brings problems, but also progress.

"Our challenge is to find a solution that addresses the problem, but does not destroy the benefits. In my opinion, since January, the SEC has done this. The meeting yesterday with the leading trading platforms followed by the proposed initial corrective action was appropriate. They all acted in a measured way.

"To respond to Mr. Frank, as Full Ranking Member, I acknowledge that I advised he and Mr. Kanjorski to wait at least until the trades were completed to give you an adequate opportunity to prepare before the hearing. But we are here, whether we are here today or two days from now is irrelevant.

"Rational concern, rising risks, and an technically overbought market that had raced ahead over 70% in the past year resulted in a skittish market, increased volatility and an environment subject to panic. Any number of events could have contributed to the market plunge last Thursday. We have all read the laundry list of what could have happened or may

have happened. Because any number of things can precipitate such an event, it is safe to assume a combination or confluence of events could cause a recurrence unless some preventative measures are taken. Although the dramatic events of last week were disturbing and undermined investor confidence, they may prove to be constructive in creating a consensus for protecting investors and reform.

"In January of this year, to credit of the SEC, the Commissioner and the Commission unanimously voted to move forward with a broad review of the equity market structure, and issued a concept release seeking public comment on such issues as high frequency trading, co-locating trading terminals, dark liquidity, market quality metrics, and the fairness of market structure. Last Thursday's events gave the SEC the political clout it needs take needed action to institute measures to help insulate the market from an electronic meltdown. It will not be a total cure or solution, nor will there ever be one, but it is a good first move. As we move forward my only advice is to be cautious. Safeguards are likely to take careful thought and time, and I commend the exchanges and the SEC for addressing the challenges presented and proposing a constructive response. It is more important to get it right than to get it done quickly and with less precision. When you see the type of temporary anarchy that we witnessed last Thursday, it's appropriate to take some preventative measures. With our children and grandchildren we take a 'time out.' I think that we are establishing a procedure similar to that with our markets when they do lapse into the panic we witnessed last Thursday. A 'time out' helps restore a child's composure or ours and I think the preventative measures you propose will restore investor confidence and a certain amount of stability to our markets."

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